

Message Text

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15

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 NEA-09 ISO-00 FEA-01

AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03

/110 W

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R 121032Z FEB 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 2569

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

ORRUESRS/AMEMBASSY CARACAS 32

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY QUITO

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L ABU DHABI 0324

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJ: ABU DHABI PRODUCTION--AND GOVERNMENT RELATIONS WITH OIL
COMPANIES--AT NEW LOW

BEIRUT PASS BAGHDAD

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1. ABU DHABI OIL PRODUCTION HAS DROPPED PRECIPITATELY SINCE BEGIN-

NING OF YEAR, DEVELOPMENT WHICH SERIOUSLY CONCERNS UAEG. ADPC PRODUCTION FOR FEBRUARY IS EXPECTED TO BE BETWEEN 400 AND 500,000 BPD AND ADMA ON ORDER OF 200,000 BPD. ADNOC HAS SO FAR NOT NOTIFIED COMPANIES OF ANY LIFTINGS UNDER ITS CONTRACTS WITH INDEPENDENT BUYERS FOR FEBRUARY.

2. COMPANY-GOVERNMENT RELATIONS HAVE HAD SERIOUS FALLING OUT OVER DROP IN PRODUCTION. COMPANIES MAINTAIN THAT THIS HAS BEEN PURELY FUNCTION OF PRICE--ABU DHABI CRUDES NOW OVERPRICED AND AS CONTRACTS ENDED LAST YEAR THEY HAVE NOT BEEN RENEWED, ACCOUNTING FOR SHARP FALL IN PRODUCTION AT TURN OF YEAR. WHEN I SAW MINISTER OF PETROLEUM OTAIBA THE OTHER DAY HE SAID HE COULD AGREE WITH THIS ANALYSIS PART WAY, BUT HE FIRMLY BELIEVED POLITICAL FACTORS WERE ALSO INVOLVED. HE SEEMED MOST UPSET BY FACT THAT COMPANIES HAD REDUCED

PRODUCTION "UNILATERALLY" AND WITHOUT CONSULTING GOVERNMENT. "IF WE HAD BEEN INFORMED ABOUT MATTER WE COULD HAVE SAT DOWN WITH COMPANIES AND WORKED SOMETHING OUT." OTAIBA MADE DISTINCTION BETWEEN OWNERS, SAYING MOBIL AND CFP "GENERALLY REASONABLE, BUT WE ARE ALWAYS HAVING TROUBLE WITH BP AND EXXON." (CFP REP IN FACT TELLS US IT WAS MAINLY SHARP DROP IN HIS COMPANY'S NOMINATIONS, CAUSED BY "SERIOUS LIQUIDITY PROBLEMS" IN CFP THAT ACCOUNTED FOR REDUCED LIFTINGS IN JANUARY AND FEBRUARY.).

3. COMPANY REPS HERE IN TURN ACKNOWLEDGE THAT OWNERS FAILED TO GIVE AS MUCH ADVANCE NOTICE AS THEY MIGHT HAVE TO MIN PET ABOUT REDUCED LIFTINGS, BUT THEY DOUBT IT WOULD HAVE AFFECTED SUBSTANCE OF PROBLEM MUCH ANYWAY, GIVEN ABU DHABI'S STUBBORN PRICING POLICIES. COMPANIES MAKE POINT THAT OTAIBA HAS KNOWN FOR MONTHS THAT ABU DHABI'S CRUDES WERE OVERPRICED AND THAT IN PRESENT CONDITION OF MARKET DROP IN PRODUCTION WAS INEVITABLE. THEY SCOFF AT OTAIBA'S SUGGESTION THAT THERE IS SOME POLITICAL PLOT TO VICTIMIZE ABU DHABI (OR HIM PERSONALLY). FACTORS OF PRICE, THEY MAINTAIN, ARE WHOLE STORY. ABU DHABI OIL IS OVERPRICED AND BUYERS ARE GOING ALESEWHERE.

4. I ASKED OTAIBA WHAT HAD HAPPENED TO HIS PLAN TO LOWER SULPHUR DIFFERENTIAL ON ABU DHABI'S CRUDES SO AS TO MAKE PRICE MORE COMPETA-

TIVE. HE SAID HE STILL WANTED TO DO THIS BUT IT WAS IMPOSSIBLE IN
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PRESENT ATMOSPHERE OF CONFRONTATION WITH COMPANIES. EVERYBODY WOULD THINK GOVERNMENT WAS CAVING IN TO PRESSURE. AS COMPANY REPS HAVE POINTED OUT, HOWEVER, IT WAS OTAIBA HIMSELF WHO CHOSE TO MAKE "CONFRONTATION" PUBLIC BY SPEAKING TO PRESS ABOUT IT, LARGELY, THE COMPANIES THINK, AS A DIVERSION BECAUSE OF HEAT HE IS GETTING FROM SHAIKH ZAYID FOR PRESENT SITUATION. COMPANIES MAY WELL BE RIGHT IN THEIR ANALYSIS.

5. IN SPITE OF ALL THIS, AND IN SPITE OF FACT THAT SYMPATHY FOR MIN PET OTAIBA DOES NOT RUN STRONGLY IN VEINS OF COMPANY OFFICIALS HERE, COMPANIES ARE MUSTERING CONCILITATORY SPIRIT IN EFFORT TO SMOOTH THINGS OVER. VARIOUS MOLLIFYING MESSAGES HAVE BEEN SENT TO OTAIBA AND THERE IS PROSPECT THAT MEETING WILL BE SET UP BETWEEN OTAIBA AND OWNERS SHORTLY TO REPLACE ONE IN PARIS THAT OTAIBA REFUSED TO SHOW UP FOR RIGHT AFTER ALGIERS CONFERENCE. AT THIS MEETING COMPANIES EXPECT TO PATCH THINGS UP SUFFICIENTLY TO ENABLE MIN PET TO PROCEED WITH REDUCTIONS IN SULPHUR DIFFERENTIAL. THIS, TOGETHER WITH BETTER CREDIT TERMS WHICH ADNOC IS PLANNING TO OFFER INDEPENDENT BUYERS, SHOULD INCREASE LIFTINGS CONSIDERABLY, BUT IN OPINION OF OPERATING COMPANIES ABU DHABI CRUDES WILL STILL BE OVERPRICED, AND IT WILL TAKE EVEN FURTHER DISCOUNTS IN PRICE TO GET PRODUCTION BACK UP TO LAST YEAR'S LEVELS.

6. MEANWHILE COMPANIES ARE PROCEEDING ON ASSUMPTION THAT THEIR REDUCED LIFTINGS IN THIS QUARTER ARE BEING TAKEN ON SAME BASIS AS LAST QUARTER 1974--I.E. A 50/50 BLENDED BARREL OF TAX-PAID EQUITY OIL AT THE ABU DHABI CONFERENCE FORMULA OF 85/20, AND OF BUY-BACK OIL AT 93 PERCENT OF THE LOWER ABU DHABI CONFERENCE POSTED PRICE.

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